What Does a Trustworthy Company Look Like?

By Peter Firestein

There isn't a more paradoxical concept in business today than trust. Everybody believes in it, and everybody decries its scarcity. Are we simply deceiving ourselves that trust—in real business in the real world—actually matters?

We are, at the very least, troubled by the need to reconcile contradictory pressures we face in business. Even if you're a CEO who believes in building trust as an authentic business practice, you're not going to be there to do it for very long unless your stock price is rising. In the event that it doesn't, a stronger competitor will likely take control of the company and send you off—if your own board hasn't done it first. So, while you're there, you're going to do whatever is necessary to please the capital markets—particularly equity investors—whose time horizons for making judgments on companies are notoriously short.

So, how much capital are you going to divert to initiatives that build trust? What's the business argument for doing it? After all, BP and the other companies vilified in the Deepwater Horizon disaster (most notably Transocean and Halliburton) are, for the most part, doing well enough to reward their investors today. Johnson & Johnson, which originated the notion of corporate trustworthiness 70 years ago, has in recent years suffered allegations of deceptive practices. Yet, its happy investors continue to see significant rises in share price. It seems there are not enough people mad at J&J—for trying to keep a carcinogenic ingredient in baby shampoo, for surreptitiously supporting an organization that promotes one of its anti-depressants, for hesitating too long to recall a faulty hip implant—to put much of a dent in sales. It's hard to make a case against the argument—which appears rampant in the pharmaceutical industry—that fines and legal settlements are a rational (and tax-deductible) cost of doing business. Could one not say the same for banking?

J&J, however, makes the best case against such cynicism. Long ago, in 1943, the company introduced its famed Credo that spelled out its responsibilities to doctors, nurses, patients, and employees. Today, J&J persistently ranks among the top five most trustworthy US companies. In 2012, most likely because of the series of adverse events just mentioned, it fell to as low as 7th in a closely-watched poll. In 2013, the company is back among the top five. The momentum of trust J&J built over the decades gave the company the reputational stability it needed to weather a rough period with very little wear and tear. AIG, on the other hand, which has not only paid all of its $182 billion TARP money back to the Government, but has given taxpayers a $22.7 billion profit, still ranks last out of 60 companies measured. Most people still identify it as one of the companies that nearly brought down the system, not as the company that performed exceptionally well in keeping its promises. It would seem, then, that the persistent development of a reputation for trustworthy conduct serves a company's long-term interests. And, when lost, it takes more or less as long to recover.

How do you know a trustworthy company when you see one?

By far the best assessment of whether a company is worthy of trust lies in an answer to the question: "Who trusts it?"

A trusted company's shares trade at a premium to its competitors' based on investors' expectations of strong performance in the future. This expectation, itself, is a matter of belief in customers' trust in its products, lenders' trust in its judgment, and regulators' trust in its practices.

When unwanted events occur, a trusted company receives the benefit of the doubt until the facts can be established. It is not assumed to be in the wrong.

A trusted company attracts the best available employees, helping to ensure that it will continue to hold the trust of stakeholders into the next generation.

A trusted company's practices and strategies are adopted by other companies wishing to emulate its success. Those strategies enter the curricula of business schools to be studied and adapted.

Concentration on the continued worthiness of a trusted company is spread evenly across all levels of the company's hierarchy. Maintaining and strengthening trust in the company is a career-long preoccupation of virtually everyone who works there.

What a Trustworthy Company Knows:

Any company intent on building trust among investors, customers, and other stakeholders can make considerable progress by understanding and implementing a few fundamental concepts:

1. To earn trust, you must trust. A company that regards the larger world with suspicion—feels victimized by journalists or misunderstood by investors, analysts and NGOs—is unlikely to offer the kind of transparency that leads to trust. The best way to engender trust in others is to offer your own. Perhaps the most effective use of this point of view lies in engaging one's opponents in dialogue.

2. You must trust yourself. An internal company culture of trust is essential not only to build trust from outsiders, but simply to function well as an organization. You must trust your colleagues sufficiently to share information. You must trust that your communications will be received and used as they are intended. The absence of such trust, alone, can qualify a company as dysfunctional.

3. You cannot edit trust. An organization is trusted as much as its least trusted area. The company with less-than-effective customer service is not generally regarded as likely to offer the best products. Investors and analysts are unlikely to regard a CEO's utterances as credible if the company's standards of financial disclosure are weak or lacking in transparency.

4. You cannot disguise untrustworthy behavior in a collaborative world. The interconnectedness of the world means failures of trust have more profound and far-reaching effects than ever before. Virtually every complex device—from a handheld phone to a an airliner—is assembled from parts converging from an extended supply chain that can contain dozens of distinct links. The importance of cooperation is intensified by the need to minimize inventory cost through just-in-time delivery techniques. These are essential if a manufacturer like Apple is to remain competitive. Long before its famous problems with lithium-ion batteries, the Boeing 787 Dreamliner faced years of delays because parts from distant locations failed to match up.

5. Holding on to trust is worth breaking the paradigm: Once trust slips, there is no lasso to bring it back. Most breakdowns in trust result from a loss of hope when experience exposes the true character of a manufacturer, employer or government.

A small democratization in China:

The Chinese Government came face-to-face with a collapse in trust when riots erupted at one of the giant Foxconn plants that manufacture products for Apple and many other consumer electronics companies. The riots followed a series of worker suicides and accompanied an emerging story—within China and elsewhere—of abusive working conditions in Foxconn's gigantic installations. The Government's desperate need to restore some basic level of trust among the workers, whose growing taste for insurrection put a fright into the country's leadership, brought about changes that are probably unprecedented in China's ancient history. It responded to the crisis by allowing truly free elections of union representatives. Elections would not have been the Government's first choice, but the need for stability brought about a change that had never been part of its DNA.

An intriguing aspect of the Foxconn story is the power of the narrative of workers' suicides. Twenty-three suicides over three years sounds frightening until you realize that they occurred among a worker population that, during this time, reached approximately 930,000. In fact, this rate of suicide is lower than the rest of China and, according to the Financial Times, of every one of the 50 US states. But the durability of the narrative of the Foxconn suicides served to objectify the profound resentment over conditions in the company's factories. Foxconn installed anti-jumping nets around its buildings, but they had little effect. For many, the suicides described the reality at Foxconn, rendering irrelevant the ratio of their actual number to the larger worker population.

Corporate execs cast themselves against type in the great Wall St pantomime:

Credibility is the great stealth factor in corporate managers' communication with Wall Street. CEOs and investor relations directors do not typically question their own credibility. But investors and equity analysts, who decide what their companies are worth through the price they're willing to pay for shares, think about management credibility all the time. They believe their livelihoods depend on the degree to which they can believe what companies tell them.

For this reason, Wall St. can punish a company's stock price 3-5% for missing analysts' earnings estimates by 1%. The reason for this is the uncertainty caused by the miss. Some large institutional investors do not value stocks on their earnings, but on the earnings' relation to analysts' estimates. It is, of course, impossible to forecast a company's earnings within so fine a margin. But if analysts were to admit that, they would bring the entire analyst profession into question. So, if the company meets or exceeds expectations, analysts reward the company not because of its strong performance so much as its affirmation of their own wisdom. There is no more powerful narrative on Wall St. than the defense of intellectual turf.

Company managements have figured this out, and they are becoming humble. Managers whose primal instinct is to talk their companies up—to try to convince the Street why they're worth more than the current stock price would indicate—have taken to talking their stocks down instead. But it's not about the company's financial performance. It's about arousing trust by matching or beating expectations in a Wall St. environment where the analysts and investors make the rules.

SEVEN STRATEGIES FOR BUILDING TRUST AND REPUTATION:

(Adapted from my book, ("CRISIS OF CHARACTER—Building Corporate Reputation in the Age of Skepticism.")

1. **Establish your values.**

   A country can't run without a constitution, nor can a corporation without a company-wide agreement on principles. There are no off-the-shelf value systems that are worth anything. They must be particular to the company's character. So, they must be built by consensus from the ground up—then disseminated and habitually reinforced.

2. **See yourself through stakeholders' eyes.**

   An understanding of how customers, partners, investors and others see you is essential in building trust. Dedicated listening through surveys, perception studies, and direct engagement delivers information that is unavailable by any other means.

3. **Define your company's landscape.**

   Mapping techniques that group stakeholders according to shared interests maximize the efficiency of trust-based initiatives. If, for example, certain NGOs, local communities, and investors are all interested in your environmental impact, emphasizing that information in communications should increase trust across a number of different constituencies.

4. **Build your reputation from the inside out.**

   Structure the entire company for trust. Analyze internal processes for their contribution to the perception of trustworthiness. For example, establish a vertical internal communications channel that goes from top to bottom and is sufficiently democratic for any voice to be heard.

5. **Tell your corporate story in terms of your obligations.**

   Communications about the company—even in press releases—should imply a convergence of business strategies and values. Recognize that communication, by itself, can't change anything. But it can be framed to depict the company's intent—and therefore its character—as well as its long-term vision.

6. **Prepare for Crisis.**

   Any company of sufficient size will face a crisis some day. This is a given. It could involve considerable civic hardship for which the company is responsible. It could involve loss of life. The company's immediate response can either increase the level of trust it receives, or collapse it. The best approach any company can take to a crisis is to shape the terms of the story before the media gets the chance. This may constitute its only opportunity to obtain fairness. To carry this out, it must have been creative enough in advance to prepare a systematic, but flexible, response plan that addresses a crisis whose nature it has no way of anticipating.

7. **Strong governance is the glue that holds the company together.**

   Responsibility for establishing trust in the organization resides ultimately with the board. Just as the board provides a check on the trustworthiness of management, so the board should have internal checks on its own trustworthiness. A board that bears the look of trust is one that is non-homogenous. It is diverse in gender, in areas of expertise, and, often, in ethnicity. In other words, the board that makes final decisions about the company should look as much as possible like the world in which the company is attempting to operate.

Conclusion:

It is impossible to build trust through strategy and technique alone. Achieving success requires an authentic belief that the company cannot ultimately succeed at the expense of its stakeholders—and that it's a very poor business decision to try.

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